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Testimony before the Assembly Budget Subcommittee No. 2 on Education Finance
Chair, Assemblywoman Susan Bonilla
Wednesday, March 7, 2012

Madam Chair and Members,

Good afternoon. My name is Diana Fuentes-Michel, and I am the Executive Director of the California Student Aid Commission. For more than half a century the Commission has been the principal state agency responsible for administering financial aid programs for undergraduate students attending public and private colleges and universities and private vocational schools in California.

The Commission oversees 11 financial aid programs for California students. The largest program is the Cal Grant which provides more than 350,000 students with \$1.5 billion to access higher education at over 430 colleges and universities across our state.

The programs that the Commission oversees are a reflection of the Legislature's commitment to the idea that access to higher education is one of the most important investments we can make in the future of our state. A highly educated population fuels a vibrant economy, fosters innovation and entrepreneurship, and has allowed California to lead the nation in technology science and innovation. The first step to an educated population is access, and the Commission is dedicated to providing that to California students.

I am here today to talk to you about the Commission and its programs in the context of a difficult budget. That California is experiencing a fiscal crisis cannot be denied. While the Governor's focus is on affordability of higher education and student success, reducing access for low-income and working class students would undermine our ability to recover and respond to potential future difficulties by leaving us a less educated population which is less able to generate the type of creative and groundbreaking solutions that have allowed California to

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overcome past challenges.

It has long been understood that education is an investment, not an expense. This distinction is critical in difficult budget years because the temptation is to reduce investment in the short term, which will result in a far greater loss of revenue in the long term. After World War II, the government invested in returning veterans' education through the Montgomery GI Bill. A Klemm Analysis Group study concluded that every four year degree the government helped pay for resulted in a more than five-fold return on investment. Cuts to financial aid do not save money, they cost money.

I would like to cover four important areas in my testimony today: (1) The proposed Cal Grant cuts will disproportionately hurt the students who need it most and who gain the most benefit from the aid; (2) the importance of preserving student choice of institution; (3) the significant benefit that California gains by investing in the state financial aid programs; and (4) an update on the actions the Commission has taken on policy and program issues.

Proposed Cal Grant Cuts Target Students Who Need Them Most

The Governor's budget proposal includes a series of policy changes to state financial aid which tend to disproportionately impact students in the lower socioeconomic classes.

Proposed GPA requirements for Cal Grants

- Cal Grant A will go from 3.0 to 3.25
 - Cal Grant B will go from 2.0 to 2.75
 - Transfer Entitlement will go from 2.4 to 2.75
- Based on our projection model used for the Governor's Proposed budget, of the students likely to be paid a Cal Grant in 2012-13:
 - **This Fall**, 24,700 high school seniors and community college students will lose their Cal Grant under these GPA proposals.
 - These students will have no time to improve their GPA in order to receive a Cal Grant.
 - 80% of these students are attending or plan to attend a community college or CSU.
 - 83% of these students will be Cal Grant B eligible and have an average family income of \$17,000.

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- The Governor's proposal to raise the GPA is intended to focus limited resources on students who are most likely to persist. The data does not support this strategy. According to the Commission's 2004 study "Determined to Succeed: Realizing the College Dream in California," receiving a Cal Grant has a large impact on persistence and graduation regardless of other factors, including prior academic achievement. In fact, of the 100,000 students included in the study, Cal Grant A recipients persisted from their first year to their second at a rate of 96.5 percent, and Cal Grant B recipients, those from the very poorest families with the most limited resources and the highest financial barriers to success, had a second-year re-enrollment rate of 93 percent. This makes sense when one considers the many challenges that students from economically disadvantaged communities must overcome while attending school. The Cal Grant allows these students to focus on educational success rather than economic survival.

Proposed cuts of the student loan assumption programs for teachers and nurses, known as APLE and SNAPLE

- The student loan assumption programs serve an important function by directing qualified teaching and nursing professionals to the neediest areas. The APLE program, for example, requires that qualified teachers teach in the most socioeconomically disadvantaged school districts. This represents one of the few successful programs to bring qualified teachers to these students.
- 2,400 teachers and 40 nurses who will have completed their first year of services will be affected by loan forgiveness cuts, as well as 14,000 additional students who are either still in school or will not have completed their first year of service in 2011-12.

Preserving Student Choice

Proposed reductions to the maximum award for non-public institutions

- Non-profits reduced from \$9,708 to \$5,472 (44% reduction)
- For-profits reduced from \$9,708 to \$4,000 (59% reduction)
- 42,600 new and renewal students will have their awards cut.
- While non-public Cal Grants to new students have been cut by 15% in two previous

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difficult budget years last decade, for the first time renewal students would be affected, too.

- Renewal students may have already begun upper-division coursework, and transferring to public colleges will result in more time and debt.
- Non-public institutions serve an important role in California's higher education ecosystem. As public institutions budgets have been cut to the bone and have been forced to respond with cuts to class offering and restricting enrollment, the privates are able to absorb some of the surplus in need. Reducing their award amount will mean students will be forced to incur more debt before entering a slow job market.
- Maintaining full funding for the Cal Grant will help preserve student choice. The ability to choose where to get an education is an important element of access to higher education. California has a diverse mix of colleges and universities which offer educational opportunities for just about any type of student. A high school senior, whose educational goal is to get a medical degree, has very different needs than a returning student seeking a vocational certificate. Each student, however, should be able to access the education they require at an institution suited to their goals.

The Value of a Cal Grant

The effects of a college education are profound to the individual, as well as to the State.

- A college graduate is more likely to be employed, more likely to earn a livable wage, and will, therefore, contribute more to the economy.
- A person with only a high school diploma or less is far more likely to cost the state more by receiving state benefits, entering the criminal justice system, or making less than the taxable minimum.
- A college graduate working full-time for 40 years will earn, on average, \$1 million more than someone with just a high school degree. This more than repays the investment represented by the Cal Grant.
- A recent article in the Washington Post indicates that Americans with a high school education or less were hit especially hard by the recession, and they have continued

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losing ground in the recovery that has followed¹.

- According to experts, the job market is shifting from low-skilled occupations toward skilled, technical jobs.
- PPIC has found a shortage of 1 million college graduates in California's workforce². These are Cal Grant students!
- CSU and UC fees have more than doubled since 2005, while the average per capita income was lower in 2010 (the most recent numbers available) than in 2005.
- In this time of economic hardship, for many families the Cal Grant is not an aid in accessing college, it IS access to college.

As you can see, the Cal Grant is the great equalizer. Our review of numerous research reports on student success and completion and the need for financial aid for access and choice in postsecondary education leads to the conclusion that it is increasingly important for policy makers to promote and protect programs that help students, particularly those from low-income families, to attend and complete college. The Commission looks forward to working with the Legislature to find ways to ensure the Cal Grant continues to provide access to higher education to all California students.

Commission's Policy and Program Actions

The Commission has been actively working to analyze the budget proposals. The following are some of the key actions the Commission has recently taken.

- At their January 26, 2012 meeting, in response to the Governor's proposals that included significantly changing the Cal Grant eligibility requirements and eliminating the Loan Assumption Programs, the Commission adopted the following resolution:

The California Student Aid Commission sees higher education as an investment in California's future. Education is the economic imperative of our time and the civil rights issue of our generation. Access to higher education is the basis for

¹ Fletcher, Michael A. "Unemployment Drop Still Leaves Low Skill Workers Behind." *The Washington Post*, February 7, 2012, sec. Business. http://www.washingtonpost.com/business/economy/unemployment-drop-still-leaves-low-skill-workers-behind/2012/02/05/gIQA5RSFvQ_story.html.

² Public Policy Institute of California, "Planning for a better future: California Workforce," February 2012, <http://www.ppic.org/main/publication.asp?i=903>

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the formation of our democratic society. As the stewards of access to opportunity for higher education, we urge the Legislature to give the highest priority to students in the budget during this time of financial downturn.

- The Commission has been and continues to be supportive of maintaining the Cohort Default Rate (CDR) standard. The CDR is a measure of school quality, and allows the state to ensure that students are given access not simply to an education, but to a quality education that will improve their financial wellbeing. Institutions who fail to meet the CDR standards are barred from participating in the Cal Grant program. The Commission will consider pending legislative proposals regarding the CDR in their March meeting.
- The Commission voted at their January meeting to hold the implementation of the transfer entitlement expansion, which would allow students to have a gap year between the community college and their transfer institution attendance, as the Governor's proposal is to maintain the existing policy which requires Community College transfer students to have enrolled in at least one of the two semesters prior to the transfer.
- Commission staff is in the process of finalizing the technical changes necessary to allow the approximately 4,800 students unintentionally denied Cal Grant renewals under the SB 70 renewal income requirements to begin receiving Cal Grants again by switching from Cal Grant B to Cal Grant A.
- Commission staff is in the process of implementing the "Dream App," intended to serve as the single financial aid application for AB 540 Dream Act students who are unable to complete the FAFSA. Implementation is on target for April 2nd, at which time students will be able to fill it out, and their data will be available for institutions to use for purposes of disbursing institutional aid for Spring 2013 and Cal Grants and institutional aid beginning in Fall 2013.

Commission Operations Budget

- The number of Cal Grant and Specialized Program award offers have increased 160% from 135,000 in 2000-01 to 350,000 in 2011-12. The Commission accomplishes administering these programs with an administrative budget of only .7% of the student support budget and a dedicated staff of 100.
- The Commission's operating budget for 2011-12 is \$10.6 million. This amount

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represents a decrease of \$5 million since 2007-08. The budget reductions have impacted some services to students and schools due to the reduction in staff and other resources such as:

- Call center hours for students reduced so we can process awards and payments; and
 - Using webinars for training that used to be provided in-person.
- Our General Fund budget has been augmented by our continued relationship with Education Credit Management Corporation (ECMC) which has provided the Commission with operational support as the Commission has transitioned the federal student loan program to a private contractor. (See ECMC attachment.)
- The Commission has successfully transitioned over 20 million student borrower files to ECMC. ECMC continues to use the Commission's loan database to conduct its collection activities. The Commission anticipates that its current operational agreement with ECMC will be extended at least six months beyond the current December 31, 2012 expiration date. We anticipate that the ECMC Foundation will announce its 2012-13 contribution to the Cal Grant Program in April. It is our understanding that the amount will at least equal what was provided last year (\$62 million). We will be communicating the ECMC decision to the Governor and Legislature as soon as we are informed.

In Conclusion

Under the Governor's proposals, a student entering high school in a poor school district would be told that if he wants to go to college he must get a higher GPA just as the state is eliminating the one program that directs qualified teachers to schools in his district. Then, if he is not fortunate enough to obtain an increasingly rare spot at CSU or UC, his Cal Grant will be reduced by about half. These are the students for whom a Cal Grant can make the biggest difference, and yet they are the students who are targeted for General Fund savings.

We ask that the Legislature invest in our students. Ours was a fortunate generation that benefited greatly from the willingness of our parents' generation to invest in the institutions, infrastructure and social programs that allowed us to enjoy a thriving society. It is easy to be good stewards of their investment when the economy is strong, but it is crucial that we are good stewards when it is weak. The foundation of this state's success is an educated workforce that can maintain and build upon what we were given. We have demanded enough sacrifice from

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our children already. We must do what we can to ensure that they continue to be able to better themselves, and California, by maintaining the Cal Grant.

Thank you for the opportunity to speak before you today. I am available for any questions you may have regarding the Cal Grant proposals or my comments today.

IMPACT OF RAISING THE CAL GRANT GPA from 2.0 TO 2.75

Nearly 1 in 3 Cash for College Students Would Lose Cal Grant Consideration

What is Cash for College?

- Cash for College is a statewide partnership program of the California Student Aid Commission established to assist low-income and first-generation college and career-bound high school seniors and recent graduates with the Free Application for Federal Student Aid (FAFSA), Cal Grant and scholarship applications. In 2011, more than 600 workshops were held in 51 out of 58 California counties.

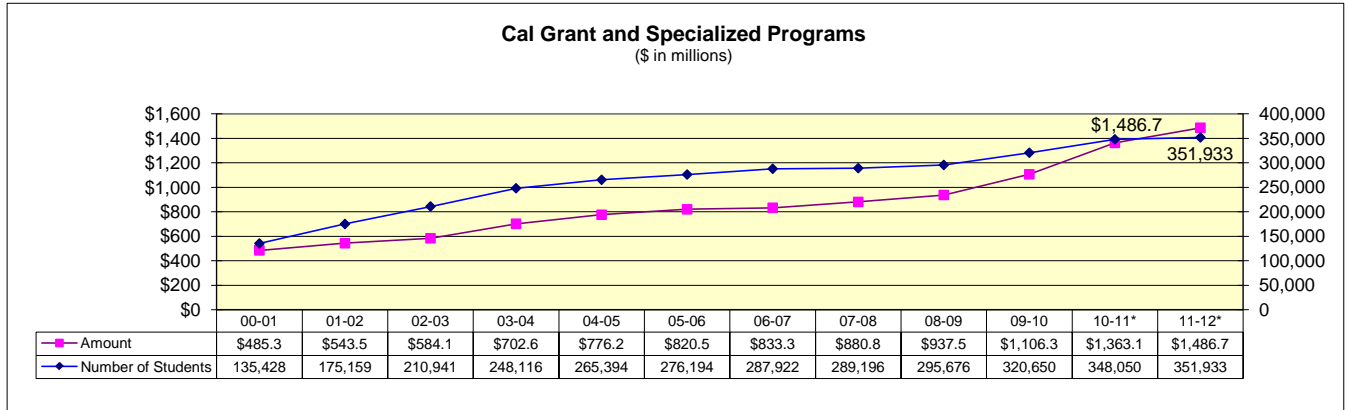
Who are Cash for College Students?

- Cash for College students are primarily high school seniors who are pursuing education beyond high school by applying for financial aid for the fall term following their senior year.
- In 2011, more than 30,000 high school seniors received assistance in completing the FAFSA at a Cash for College workshop.
- More than half of Cash for College students are first in family to attend college. 71 percent are from low income families.
- Cash for College students are Latino (53.4%), White (17.3%), Asian (11.4%), African American (5.2%), and Multi-Racial (9.4%).
- 9 out of 10 completed a FAFSA by the March 2 Cal Grant deadline. 8 out of 10 applied for a Cal Grant by the March 2 Cal Grant deadline. Altogether, Cash for College students *qualified* for more than \$137 million in Cal Grant and Pell Grant financial aid.

Who would lose Cal Grant Consideration?

- 30 percent of Cash for College students **who met the minimum 2.0 Cal Grant GPA requirement** last year would **not qualify** under the Governor's proposed plan to increase the Cal Grant GPA requirement from 2.0 to 2.75.
- **Low-income Cash for College students who had at least a 2.0 GPA and who would be disqualified:**
 - ✓ 30.4% of African American students
 - ✓ 28.2% of Latino students
 - ✓ 13.7% of White students
 - ✓ 12 % of Asian American students

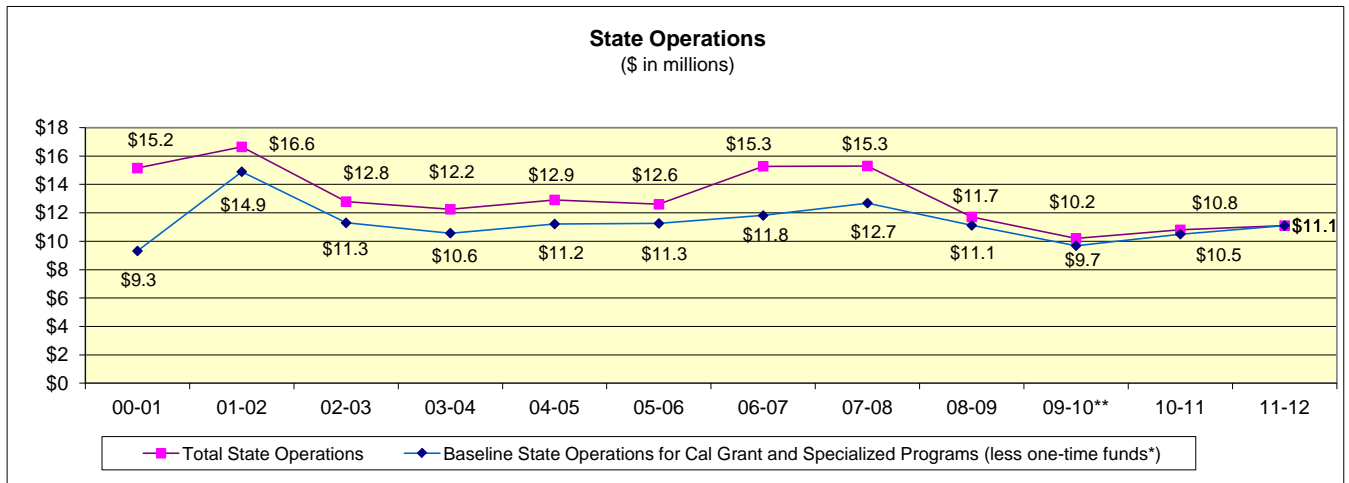
California Student Aid Commission
Funding History for Programs and State Operations
2000-01 through 2011-12



Percent Change from 2000-01 to 2011-12:

Amount: 206%

Number: 160%



Percent Change from 2000-01 to 2011-12:

Total: -27%

Baseline: 19%

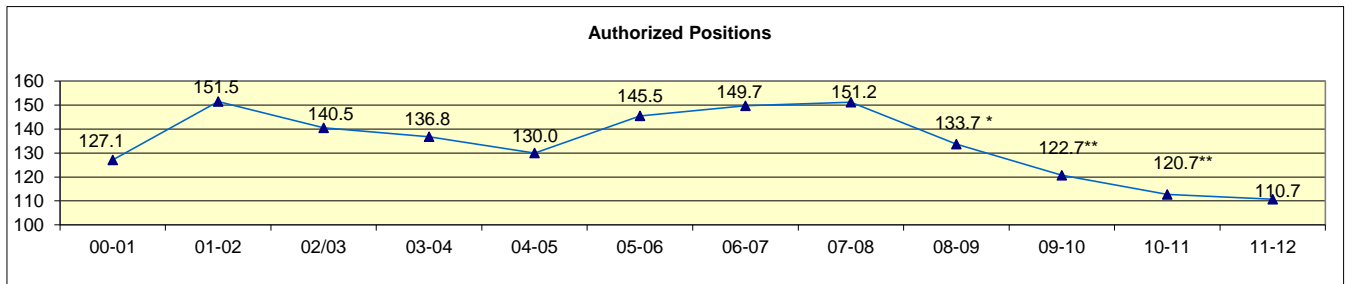
**One-time funds include funding for the implementation of Cal Grant Entitlement Program (SB 1644), the tri-annual SEARS survey, Grant Delivery System Enhancements (including Real Time processing).

Administrative Overhead												
Fiscal Year	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12
Overall rate	3.0%	3.0%	2.1%	1.7%	1.6%	1.5%	1.8%	1.7%	1.2%	0.9%	0.8%	0.7%
Baseline Rate	1.9%	2.7%	1.9%	1.5%	1.4%	1.4%	1.4%	1.4%	1.2%	0.9%	0.8%	0.7%

Percent Change from 2000-01 to 2011-12:

Overall: -61%

Baseline: -76%



Percent Change from 2000-01 to 2011-12:

Number: -13%

* The reduction in positions in 2008-09 does not reflect the additional loss of 20 student assistants who were terminated on 6-30-08 due to budget reductions and Executive Order 09-08.

Footnote: 2001/02 was the first year of Cal Grant Entitlement Program.

Supporting California

ECMC & ECMC Foundation

ECMC

Educational Credit Management Corporation (ECMC), a nonprofit organization, supports the Federal Family Education Loan (FFEL) Program in California. Although loans are no longer being originated through the FFEL Program, ECMC continues to provide outreach and financial literacy services that promote college access, retention and success to schools and students in California.

FUND YOUR FUTURE WORKBOOKS

Each year, more than one million copies of the *Fund Your Future* financial aid publication series are distributed. *Fund Your Future*, a publication of the California Student Aid Commission (CSAC) in partnership with ECMC, provides information on California state and federal financial aid programs for funding a college education or career training. Updated annually, this workbook is an essential tool for navigating the college-planning process. These free materials are available in print or as a download at www.ecmc.org/FundYourFuture. English and Spanish versions are available.

FINANCIAL LITERACY

Our *Personal Finance Management Series* helps students make informed decisions about their financial future. Offerings include student materials, webinars for students, interactive calculators and training for schools. View our financial literacy resources and tools for students at www.ecmc.org/FinancialLiteracy.

STUDENT LOAN COUNSELING

ECMC offers a customizable online loan counseling curriculum that exceeds federal loan counseling requirements. We help you engage your students and easily explain valuable loan repayment and financial literacy concepts.

GRANT AND SCHOLARSHIP PROGRAMS

ECMC contributed more than \$100 million to the state's Cal Grant Program and \$500,000 for the Cash for College scholarship program. We continue to work in partnership with CSAC to serve California students and borrowers.

Visit www.ecmc.org to download materials or learn more about outreach programs through ECMC.

(ECMC Foundation on back)



ECMC

ECMC Foundation

Our charitable affiliate, ECMC Foundation, develops programs and distributes resources to assist low-income, first-generation college-bound students in achieving their education goals.

THE COLLEGE PLACE

Our free college access centers offer in-person guidance, free resources and Internet access to assist students of all ages explore their options for higher education. In California, The College Place is located on the University of California Berkeley campus.

CURRICULA GUIDES

With the help of our partners in higher education, ECMC Foundation has developed three curricula to support educators in reaching low-income, first-generation students at different stages along their education paths.

- *Believing the College Dream* targets students in grades 4-8 and sparks discussion among community stakeholders who can support these students through college.

- *Realizing the College Dream* provides additional preparation and encouragement for students in high school. A Pell Institute study shows how this well-received curriculum is impacting hundreds of thousands of students.
- *PERSIST* is geared toward college students who need extra support to achieve their education goals. It also helps education professionals assess their retention rates, set new targets and plan retention-focused programs.

CAL GRANTS

In 2011-2012, ECMC Foundation contributed more than \$62 million to the state's Cal Grant Program.

Visit www.ecmcfoundation.org to download materials or learn more about outreach programs through ECMC Foundation.